



Luke A Bronin
Mayor

September 7, 2016

Honorable Thomas J. Clarke, II, Council President, and
Members of the Court of Common Council
City of Hartford
550 Main Street
Hartford, CT 06103

RE: Fiscal Year 2016 (FY2016) Fourth Quarter Financial Report

Dear Council President Clarke:

In accordance with Chapter V, Section 2(j) of the Hartford City Charter, I am hereby submitting to you the Report of the financial transactions of Hartford City Government during the Fiscal Year beginning July 1, 2015 and ending June 30, 2016.

This report is based on the City's actual unaudited financial performance as compared to the FY2016 Adopted Budget, as amended. It is important to highlight that these numbers are unaudited as we are preparing for our annual external audit, which will result in our Comprehensive Annual Financial Report (CAFR). The CAFR is prepared by the Finance Department in accordance with Generally Accepted Accounting Principles (GAAP) as they relate to governmental agencies in addition to financial standards promulgated by the Governmental Accounting Standards Board (GASB). The Adopted General Fund Budget should be used in conjunction with the CAFR to compare the City's total financial position versus the plan (i.e., the Budget). The Budget is the City's policy document for the fiscal year and the CAFR reflects the City's actual financial performance for the fiscal year.

When comparing the City's financial performance to the Budget, please keep in mind that Council amended the FY2016 Adopted Budget when it approved the transfer of \$15,297,500 on June 27, 2016 to cover cost overruns in several budgeted line items, including the use of \$9.6 million of the Unassigned Fund Balance. The Report reflects revenues of \$530.1 million (99.3% of the Adopted Budget) and expenses of \$539.6 million (101.1% of the Adopted Budget). The City's financial performance for FY2016 is projected to result in a negative variance of \$9.6 million. This results in a projected decrease of \$9.6 million to the Unassigned Fund Balance (formerly Undesignated or "rainy day"), which is projected to reduce the FY2015 ending total of \$21.5 million to the FY2016 ending total of \$11.9 million.

The City has closed FY2016 and is in the process of completing the financial reports in anticipation of the annual external audit scheduled to begin in the coming weeks. We anticipate issuing the FY2016 CAFR by December 31, 2016.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Luke A. Bronin", is written over a horizontal line.

Luke A. Bronin
Mayor

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FISCAL YEAR 2016 FINANCIAL REPORT

REVENUE PROJECTIONS

This section presents the preliminary fiscal year-end review of revenue. The information provided below is subject to change due to the fiscal year-end external audit to be performed by RSM LLP.

The fourth quarter revenue report as of June 30, 2016 reflects actual revenues of \$530.0 million or 99.3% of the Adopted Budget of \$533.8 million. Actual revenues are \$3.8 million lower than the Adopted Budget. The Council's budget amendment on June 27, 2016 authorized the use of Unassigned Fund Balance to fund this revenue shortfall.

As part of the external audit, an adjustment is made to the prior year tax levies regarding collections received 60 days following the end of the fiscal year. It is estimated that this annual adjustment could potentially decrease prior year tax levy collections, which would ultimately increase the overall unfavorable revenue variance.

A more detailed analysis of each revenue category is presented below:

General Fund - Citywide

Taxes

Revenues from FY2016 tax levies and interest collections totaled \$265.9 million, which exceeded the Adopted Budget by \$0.2 million. In total, the overall tax revenue category including current and prior fiscal year tax levies, as well as sale of tax liens, is expected to match the Adopted Budget before audit adjustments. The sale of tax liens budgeted at \$5 million was not achieved based on the pool of eligible tax liens (e.g., exclusion of liens on owner occupied properties or liens less than \$1,000) resulting in FY2016 total tax lien sales of \$3.4 million. As planned, we will continue to reduce our reliance on the sale of tax liens in the coming fiscal years by increasing our internal efforts to collect all taxes due and owing.

Licenses and Permits

This budget category ended FY2016 with total revenues of \$7.4 million exceeding the Adopted Budget by \$1.2 million. The increase was led by the building permit revenue account outperforming the Adopted Budget by \$1.1 million. We are optimistic that on-going and recent projects will continue the upward trend in permit income during FY2017.

Fines, Forfeits and Penalties

Revenues collected in this category approximate \$213,300 which is \$45,700 higher than the Adopted Budget of \$167,600. The increase is a result of increased collection efforts for false alarm citations.

Revenue from the Use of Money and Property

As previously reported in the monthly financial reports, the anticipated revenue of \$2.6 million budgeted from the Capital Region Development Authority (CRDA) for the XL Center lease was not received and is not collectable unless future financial performance of the XL Center results in a surplus. This revenue category ended FY2016 \$2.25 million under the Adopted Budget of \$4.8 million.

Intergovernmental Revenues

Despite the heightened concern during the fiscal year about the State of Connecticut's budgetary challenges, this revenue category ended FY2016 at 99.9% or \$303,000 below the Adopted Budget of \$244.2 million.

The State payment in lieu of taxes (PILOT) revenue continues to be funded at amounts below the statutory level, significantly impairing the City's overall potential revenue structure. For FY2016, the City requested \$89.6 million from the State for PILOTs for Colleges, Hospitals and State-Owned Property in accordance with the statutory reimbursement percentages. However, the City actually received \$37.3 million from the State due to their available budget to fund the program. A fully-funded PILOT payment would enable the City to ease the tax burden while continuing to fund education, public safety and the maintenance and improvement of City infrastructure.

Charges for Services

An overall positive variance of \$697,800 was realized in this category. The conveyance tax revenue account outperformed the Adopted Budget by \$545,000. Total actual revenues of \$3.65 million have been received in this general category versus the Adopted Budget of \$2.95 million.

Reimbursements

The reimbursements category ended FY2016 at \$157,250 or 132.7% of the \$118,475 Adopted Budget. This category includes miscellaneous transfers to offset the costs of fringe benefits and indirect costs for various federal and state programs.

Other Revenues

The City only realized \$1.1 million of the ambitious \$3.0 million budgeted from the sale of various City-owned properties. The Adopted Budget included an expectation to sell City-owned property located at 525 Main Street that did not take place, which contributed to the negative variance of approximately \$1.9 million in this category.

Other Financing Sources

The City received \$5.15 million in this category, which is \$1.45 million under the Adopted Budget of \$6.6 million. This revenue shortfall is primarily due to less than expected collections for Police private duty and a pending transfer of approximately \$200,000 from the Hartford Parking Authority that will occur during the external audit process.

General Comments

Revenues from taxes, licenses and permits, fines, forfeits, and penalties, charges for services, and reimbursements all exceeded the Adopted Budget. Income from interest and rental income, intergovernmental revenues, other revenue, and other financing sources came in under budget. Despite not receiving the amounts budgeted in several areas, including XL Center rent, proceeds from the sale of City property, and tax lien sales, total revenues for FY2016 are 0.7% below the Adopted Budget due to the successful collection of prior fiscal year taxes, the Materials Innovation & Recycling Authority settlement, and building permits outperforming budget.

EXPENSE PROJECTIONS

This section presents the preliminary fiscal year-end review of expenditures. The information provided below is subject to change due to the fiscal year-end external audit to be performed by RSM LLP.

Municipal

Expenses for FY2016, are presently projected at \$539.6 million. This represents an unfavorable variance of \$5.8 million to the Adopted Budget of \$533.8 million. The Council's budget amendment on June 27, 2016 authorized the use of Unassigned Fund Balance to fund these cost overruns.

At the end of FY2016, the Court of Common Council took action to reallocate funding among departments and authorized the use of previously Unassigned Fund Balance. A fourth quarter transfer resolution was passed on June 27, 2016 that reallocated available unencumbered appropriation balances from Corporation Counsel, Chief Operating Officer, Communications, Finance, Human Resources, Management Budget & Grants, Families Children Youth & Recreation, Emergency Services & Telecommunications, Development Services, Debt Service, and Non-Operating to Police, Fire, Public Works, Health & Human Services and Benefits & Insurances. Actual unaudited expenditures reflect the reallocation of \$6.6 million to Police primarily for overtime and attrition, \$2.125 million to Fire primarily for overtime, \$0.075 million to Public Works primarily for overtime, \$0.150 million to Health & Human Services primarily for relocation assistance and dial-a-ride, and \$6.347 million to Benefits and Insurances, primarily for health insurance claims and pension costs. The Council's authorization on June 27, 2016 to utilize \$9.65 million of the Unassigned fund balance is projected to be adequate to fund FY2016's cost overruns. As we progress toward and through the annual external audit, we are currently tracking the need to request Council's authorization to transfer unencumbered appropriations in the General Fund to cover additional cost overruns in Benefits & Insurances (approximately \$3.5 million) and the Fire Department (approximately \$360,000). It is the Administration's intent to submit a resolution for Council's consideration in late October or early November. By that time, the external audit process will have achieved a level of certainty regarding all audit adjustments.

General Fund - Citywide

Attrition

The Citywide total attrition budget of \$4.7 million exceeded the Adopted Budget by \$1.5 million in FY2016 as a result of unachieved departmental vacancy savings.

Debt

Debt Service payments were \$10.5 million in FY2016. This is \$12.9 million below the Adopted Budget of \$23.4 million. The primary drivers of the favorable variance were the use of bond premium to fund interest expense, unspent bond proceeds required to repay principal, and debt service savings produced by refunding previously issued bonds at lower interest rates.

Overtime

Overtime exceeded the Adopted Budget for certain departments. The Department of Public Works exceeded budgeted overtime by approximately \$0.77 million, the Police Department by approximately \$4.8 million, and the Fire Department by approximately \$3.6 million. Service needs and special events were the primary drivers of Public Work's overtime while Police and Fire overtime was driven by a combination of inadequate staffing levels, service needs, and special events.

Benefits

The City's FY2016 Benefit Expense is projected to be \$81.3 million. This represents an unfavorable variance to the \$65.7 million Adopted Budget of \$15.6 million. The main drivers of this unfavorable variance are contributions to the Municipal Employee's Retirement Fund being \$3.3 million higher than budget due to increased police pensionable overtime, payments to employees for vacation and sick time earned exceeding the budget by \$3.3 million, unachieved mitigation savings of \$2.5 million, grant reimbursements lower than budget by \$0.75 million, health insurance claims at \$5.2 million higher than budget, and other employee benefits (including workers' compensation) at \$0.6 million higher than budget. The analysis of actual claims experience is on-going. Once we achieve one year of service under our new insurance provider we will be better able to identify the specific cost drivers of the higher than projected insurance expense. The City appropriates funds annually to the Health Benefits and Other Post-Employment Benefits (OPEB) Internal Service Funds (ISF) to pay health benefits and OPEB expenses. In FY2016, the City utilized approximately \$1.3 million of the \$4.6 million available balance in the OPEB ISF. The OPEB ISF's remaining \$3.3 million balance will be used to provide an initial \$1 million contribution to the OPEB Trust Fund with the \$2.2 million balance continuing to be held in the OPEB ISF as a set-aside for near term contingent liabilities.

Non-Operating

As a whole, the fuel, utility and tipping fee costs were favorable to the Adopted Budget by \$1.8 million in FY2016. The City's payment for the processing of sewer waste, electricity for streetlights and buildings, gasoline for the Citywide fleet, and tipping fees for the disposal of collected waste were under budget.

Education

The direct appropriation to the Hartford Public Schools remained in-line with the Adopted Budget.

Hartford Public Library

While the direct appropriation to the Hartford Public Library, which includes fringe benefits, appears to be in-line with the Adopted Budget, health insurance expenses for Library covered employees exceeded budgeted funds by \$0.8 million and is included above in the City's shortfall under Benefits.

FUND BALANCE PROJECTIONS

This section presents preliminary fiscal year-end change to general fund balance. The information provided below is subject to change due to the fiscal year-end external audit to be performed by RSM LLP.

Based on unaudited FY2016 revenues and expenditures, the City estimates that the general (Unassigned) fund balance for FY2016 will decrease by \$9.6 million. The following chart summarizes both revenues and expenditures for FY2016.

GENERAL FUND BALANCE

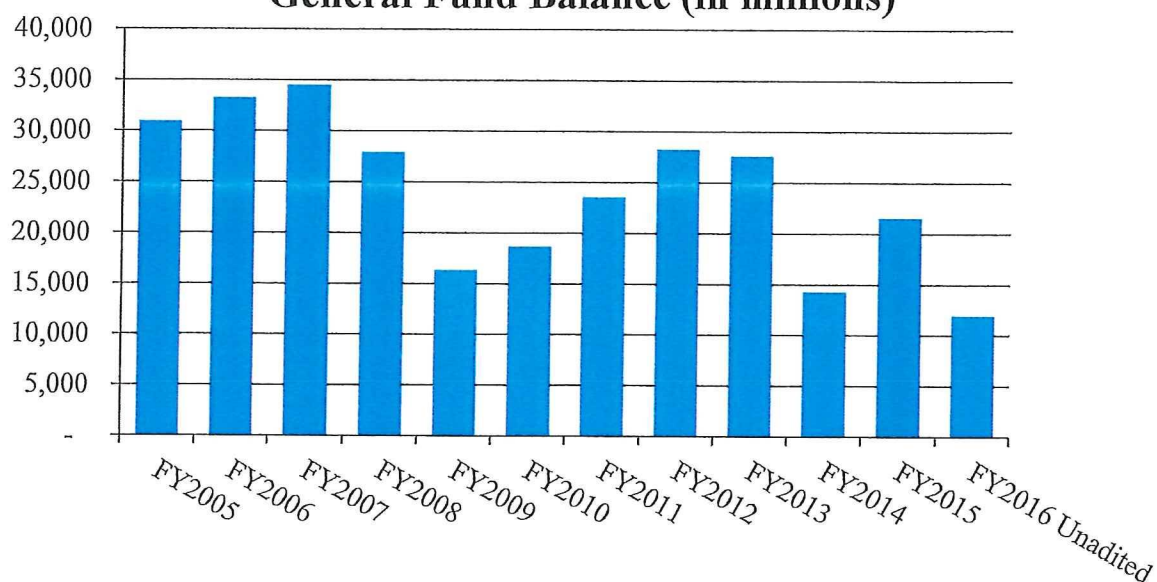
FY2016 (Unaudited)

(\$ Millions)

	Adopted Budget	Revised Budget	Year End Estimate	Revised \$ Variance	Revised % Variance
Revenues	533.8	533.8	530.0	(3.8)	(0.7)
Expenses	533.8	539.6	539.6	(5.8)	(1.1)
Change in Fund Balance	--	(5.8)	(9.6)	(9.6)	(1.8)

The estimated (unaudited) difference between revenues and expense of (\$9.6) million will reduce the ending fund balance for FY2016, thus decreasing the estimated Unassigned fund balance from \$21.5 million to \$11.9 million as of June 30, 2016. The graph below reflects the fiscal year ending general fund balance since Fiscal Year 2005.

General Fund Balance (in millions)



It is important to note that there are five GASB classifications to municipal fund balances:

- Non-Spendable,
- Restricted,
- Committed,
- Assigned, and
- Unassigned.

Each fund balance classification has certain characteristics that categorize the type of fund balance based on constraints imposed upon the use of the resources reported in the funds. For purposes of this report, we have focused on the unassigned fund balance. Unassigned fund balance is the residual classification and includes all spendable amounts that have not been contained in the other categories. The Unassigned fund balance was previously referred to as Undesignated, and is also known as the “rainy day fund.”